

Pentwater Public Schools

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2008

Pentwater Public Schools

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OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Pentwater Public School's basic financial statements. The Pentwater Public School's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Pentwater Public School's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Pentwater Public School's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of Pentwater Public Schools is improving or deteriorating.

The Statement of Activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Pentwater Public Schools (PPS) uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of PPS can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Pentwater Public Schools

Management's Discussion and Analysis

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the PPS's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information, which shows budget to actual results for the general fund.

FINANCIAL STATEMENTS

The Statement of Net Assets – As shown in the table below, net assets decreased by 8%, or \$156,485. The change in non-current assets was largely due to depreciation despite the addition of a new bus. The change in liabilities was due to payments on long-term debt.

<u>Net Assets</u>	2007 Governmental Activities	2008 Governmental Activities
Assets		
Current assets	\$ 915,944	\$ 884,353
Capital assets	5,382,742	5,194,583
Other assets	74,281	70,853
Total assets	<u>6,372,967</u>	<u>6,149,789</u>
Liabilities		
Current liabilities	406,770	458,861
Long-term liabilities	<u>3,993,457</u>	<u>3,874,673</u>
	4,400,227	4,333,534
Net assets		
Invested in capital assets, net of related debt	1,350,589	1,271,979
Restricted for		
Capital projects	127,656	115,734
Debt service	82,770	-
Permanent funds	2,980	2,700
Unrestricted	408,745	425,842
Total net assets	<u>\$ 1,972,740</u>	<u>\$ 1,816,255</u>

The Statement of Activities – We received additional revenue again in 2007-08 as a result of providing contracted services. We continued the rental of classroom space to Mason-Lake Intermediate School District, and rental of district owned property along with contracting of payroll services to Mason County Central Schools. In addition, general fund property taxes increased 2.25% due to increased taxable values. Reinstatement of at-risk funding of \$52,000, an increase in Title I funding of \$7,000, and payments of State Aid of \$44,858 increased our revenue, although special education funding decreased. Our original budget showed that we did not expect to receive state aid, but did due to increases in enrollment. This year, the board levied 0.092 for debt retirement so that payments could be made on debt principle and interest.

Through a decrease of salary and benefits expenditures caused by resignations with a reassignment of duties, we saw an increase in net revenues over expenditures. We also saw a limited decrease in need for equipment expenditures in general fund, contributing to this net increase. We continued to work to keep our expenditures down with increased spending at only 1% while our revenues increased by 10.3%. This gave us a decrease in net assets of \$156,485 as compared with \$389,957 for the prior year.

Statement of Activities

	2007 Governmental Activities	2008 Governmental Activities
Functions/Programs		
Program Revenue		
Charges for Services	\$ 74,893	\$ 83,358
Operating Grants	239,439	255,437
General Revenues		
Property taxes - General Fund	2,124,417	2,174,328
Property taxes - Debt services	-	180,105
Grants and Contributions (not restricted to specific programs)	62,168	75,520
Unrestricted Investment Earnings	46,723	27,760
Miscellaneous	41,715	60,599
Total revenues	2,589,355	2,857,107

Pentwater Public Schools

Management's Discussion and Analysis

Statement of Activities

	2007 Governmental Activities	2008 Governmental Activities
Instruction	\$ 1,382,990	\$ 1,438,635
Support services	909,758	924,995
Community services	6,765	1,100
Food services	126,678	122,266
Athletics	86,742	92,872
Interest on long-term obligations	160,596	158,829
Other	38,414	-
Unallocated depreciation and amortization	267,369	274,895
Total expenditures	<u>2,979,312</u>	<u>3,013,592</u>
Change in net assets	(389,957)	(156,485)
Net assets - beginning	<u>2,362,697</u>	<u>1,972,740</u>
Net assets - ending	<u>\$ 1,972,740</u>	<u>\$ 1,816,255</u>

Balance Sheet – This report shows the worth of our individual funds without inclusion of capital assets and long term debt. The sheet divides funds into three categories – General Fund, Capital Projects, and Other governmental funds. The general fund benefited from a slight increase in Title I funds and unanticipated increases in State Aid and At-risk funds. Reserved balances for the end of 2007-08 are \$1,349 Food Service inventories, \$565 in Debt Service fund balance, \$2,700 for Kristen Ward Pentwater Public School Foundation Scholarships, and \$115,734 in Capital Projects.

Unreserved General Fund balance was up with a balance of \$429,970, an increase of \$8,681 from June 2007, and we are still at a healthy 17% of total revenues. The Food Service fund balance is down slightly due to fewer meals served and increased food costs, but still stands at \$19,923. The Athletic Fund continues to require transfers from the general fund.

Statement of Revenues, Expenditures and Changes in Fund Balances

The start of the academic year requires a budget in each fund for the school's business. The budgets are amended during the year and then audited against the final amendments. The reason for the variances in the budget from original to final adopted and from final adopted to audited are a good review of the district's challenges and solutions for the year.

Our enrollment figures for the start of the year continued to be below a level that would allow us to collect any significant state aid, but they exceeded our original estimate. Through an unanticipated change in our student population we became eligible to receive at-risk funds. Increased tax revenues at the local level, a renewal of our Small Rural Grant and revenues generated from contracted services, notably providing payroll services to Mason County Central, made up the addition to the revenue side of the budget.

Pentwater Public Schools

Management's Discussion and Analysis

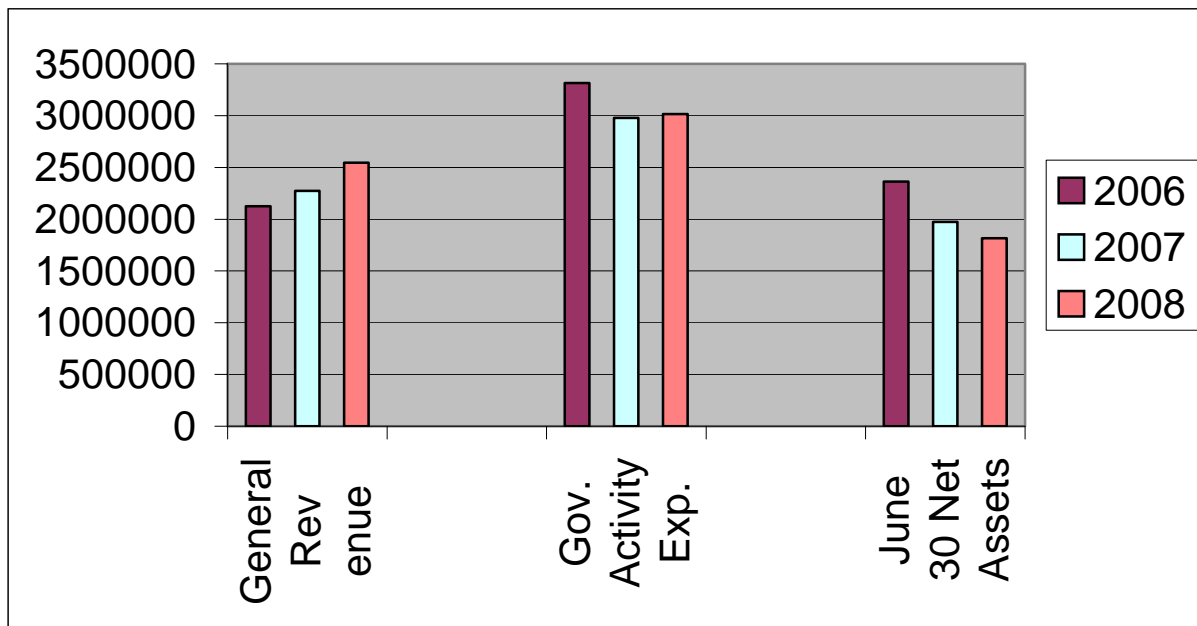
Expenditures overall were down slightly due to decreases in salaries and benefits and capital outlay. Again this year, we recognized the need to cut costs to keep a healthy fund balance and made difficult decisions to do so. Board expenses were kept lower than expected by reduced costs for legal and other professional services.

Due to increase in revenues and conservative spending, we have been able to increase our general fund balance of \$8,681.

The capital projects fund is being held in place while seeking resolution of roof issues. The amount of decrease in the fund balance was \$11,922 or a 9% reduction.

CONDENSED COMPARATIVE DATA

The results of this year's operations for the school district as a whole are reported in the Statement of Activities which also shows the changes in net assets for fiscal year 2007-08. This chart summarizes revenues, expenses and net assets over the past three years.



Pentwater Public Schools

Management's Discussion and Analysis

FINANCIAL ANALYSIS OF DISTRICT

Our fund balance increased from the previous year. We took measures that favorably impacted that number to retain a respectable 17% of General Fund revenues fund balance. The increase in our fund balance by \$8,681 portrays the difference between our revenues and our expenditures. We continue to look for creative ways to minimize this gap between income and costs.

Our capital assets decreased primarily due to depreciation. We also purchased a new bus.

FUND ANALYSIS

Lunch program and athletics are funded by user fees, but sometimes need to be supported by general funds. Revenues have been enhanced by catering for Pentwater Service Club. However, we served fewer meals than the prior year due to cancellation of a contract to provide food services to Lakeshore Public Academy. The Athletic Fund needed less support than we anticipated despite adding two sports. Although gate receipts were up due to increased ticket prices, transfers from general fund were still necessary.

Debt Retirement Fund was funded by 0.092 levy. This was the first levy in three years and remains significantly less than the voter approved 2 mills. The length of time this levy was delayed shows the commitment of the board and district to keep the public trust.

The scholarship fund continues to hold funds for the Kristen Ward Pentwater Public School Foundation pursuant to the donors' request.

BUDGET VARIANCES IN GENERAL FUND

While the amendments made during the school year are made with the most accurate information available, there are always some developments that mean the final audited budget information will differ from the final adopted budget.

Revenues saw the following differences:

- Increase in local tax revenue
- Two years of USF funds increased abatement of expenditures
- Receiving state aid membership that was not anticipated
- Receiving at-risk funding that was not anticipated
- Transfer from Mason Lake ISD for special education
- Slight increase in Title I funding
- MIBLISI grand funding was added

Expenditures were different because:

- Retirements of three senior staff members whose duties were distributed to other staff
- Fuel costs increased
- Purchase of a bus
- Savings due to decreased heating

While we projected a June 2008 fund balance of 4% at the June 2007 adoption of the 2007-08 General Fund budget, we have a 13% fund balance today.

CAPITAL ASSETS AND LONG-TERM DEBT

The capital improvements made as a result of our 2004 bond passage have continued to enhance our educational and community facility. The debt on that bond issuance will continue for approximately 20 years and will be paid off first with capital project funds and then with levies on the public. Due to taxable value increases, the amount levied was lower than the two mills that were voter approved. With discovery of design problems in the roof completed during this project, however, we face possible depletion of the remaining capital projects funds to make corrections. We are currently seeking resolution through the mediation process.

OTHER POTENTIALLY SIGNIFICANT MATTERS

- We continue to be encouraged by stabilized increased enrollment and larger numbers in our kindergarten class.
- Contracts with pre-school, day-care, business services have brought in revenues and or enrollment.
- We have reduced costs through retirements of senior staff members and consolidation of duties and addition of less expensive part-time staff.
- We are working to reduce any financial impact of roof problems by negotiations with contractors and architects through an independent audit of the 2004 construction project.
- Economic conditions affecting gas prices and jobs could negatively affect our enrollment especially considering our large out-of-district population.
- We now share contracted technology services with a neighboring district.
- We have arranged to contract counseling services with an independent provider.
- Master agreement is not a long term settlement and requires annual attention.

Pentwater Public Schools has been handling financial challenges since the passage of Proposal A and a decline in enrollment starting in the 1990's. Fortunately the boards and administrations of the district have dealt with these challenges judiciously, allowing the district to remain fiscally sound and educationally relevant. Many of the measures that larger schools have been considering in the past few years were instituted here earlier.

Contracting of custodial services and employee co-pay for insurance premiums started in the 1980's. Since that time, administrative moves to contain costs include:

- Contracting with other schools/agencies/contractors to provide business and other services.
- Early severance incentives and staff reduction through attrition
- Contracting at minimal cost with outside providers for daycare and preschool services on-site
- Reduction of costs through consolidation of administrative positions

We continue to address administrative decisions as conservatively as possible while still meeting the needs of our students.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

October 17, 2008

Board of Education
Pentwater Public Schools
Pentwater, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pentwater Public Schools (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pentwater Public Schools' management. Our responsibility is to express an opinion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Pentwater Public Schools, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated October 17, 2008, on our consideration of Pentwater Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages i - vii and page 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Pentwater Public Schools
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental activities
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 831,435
Investments	10,329
Due from other governmental units	41,240
Inventories	<u>1,349</u>
Total current assets	884,353
NONCURRENT ASSETS	
Capital assets, net	
Nondepreciable	212,191
Depreciable	4,982,392
Bond costs, net	<u>70,853</u>
Total noncurrent assets	<u>5,265,436</u>
Total assets	6,149,789
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	309,834
Deferred revenue	30,243
Bonds and other obligations, due within one year	<u>118,784</u>
Total current liabilities	458,861
NONCURRENT LIABILITIES	
Bonds and other obligations, less amounts due within one year	<u>3,874,673</u>
Total liabilities	<u>4,333,534</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,271,979
Restricted	
Capital projects	115,734
Permanent funds	2,700
Unrestricted	<u>425,842</u>
Total net assets	<u>\$ 1,816,255</u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools
STATEMENT OF ACTIVITIES
For the year ended June 30, 2008

<i>Functions/Programs</i>	<u>Expenses</u>	<u>Program Revenue</u>		Net (Expenses)
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	Revenue and Changes in Net Assets
Governmental activities				<u>Governmental activities</u>
Instruction	\$ 1,438,635	\$ -	\$ 159,973	\$ (1,278,662)
Support services	924,995	27,242	21,027	(876,726)
Community services	1,100	-	820	(280)
Food services	122,266	43,544	73,558	(5,164)
Athletics	92,872	12,572	59	(80,241)
Interest on long-term obligations	158,829	-	-	(158,829)
Unallocated depreciation and amortization	274,895	-	-	(274,895)
Total governmental activities	<u>\$ 3,013,592</u>	<u>\$ 83,358</u>	<u>\$ 255,437</u>	(2,674,797)
General revenues				
Property taxes levied for				
General purposes				2,174,328
Debt service				180,105
Grants and contributions not restricted to specific programs				75,520
Investment earnings				27,760
Miscellaneous				<u>60,599</u>
Total general revenues				<u>2,518,312</u>
Change in net assets				(156,485)
Net assets at July 1, 2007				<u>1,972,740</u>
Net assets at June 30, 2008				<u>\$ 1,816,255</u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools
BALANCE SHEET
 Governmental Funds
 June 30, 2008

	General Fund	2004 Capital Projects Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and cash equivalents	\$ 680,792	\$ 115,822	\$ 34,821	\$ 831,435
Investments	10,329	-	-	10,329
Due from other governmental units	37,449	-	3,791	41,240
Inventories	-	-	1,349	1,349
Total assets	<u>\$ 728,570</u>	<u>\$ 115,822</u>	<u>\$ 39,961</u>	<u>\$ 884,353</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 41,849	\$ 88	\$ 12,281	\$ 54,218
Accrued liabilities	226,508	-	2,970	229,478
Deferred revenue	30,243	-	-	30,243
Total liabilities	<u>298,600</u>	<u>88</u>	<u>15,251</u>	<u>313,939</u>
Fund balances				
Reserved				
Inventories	-	-	1,349	1,349
Debt service	-	-	565	565
Capital projects	-	115,734	-	115,734
Permanent funds	-	-	2,700	2,700
Unreserved				
Undesignated				
General Fund	429,970	-	-	429,970
School service	-	-	20,096	20,096
Total fund balances	<u>429,970</u>	<u>115,734</u>	<u>24,710</u>	<u>570,414</u>
Total liabilities and fund balances	<u>\$ 728,570</u>	<u>\$ 115,822</u>	<u>\$ 39,961</u>	<u>\$ 884,353</u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2008

	General Fund	2004 Capital Projects Fund	Other governmental funds	Total governmental funds
REVENUES				
Local sources				
Property taxes	\$ 2,174,328	\$ -	\$ 180,105	\$ 2,354,433
Investment earnings	21,809	3,544	2,407	27,760
Fees and charges	25,926	-	54,491	80,417
Other	30,640	-	2,504	33,144
Total local sources	2,252,703	3,544	239,507	2,495,754
State sources	161,047	-	9,577	170,624
Federal sources	95,473	-	63,981	159,454
Total revenues	2,509,223	3,544	313,065	2,825,832
EXPENDITURES				
Instruction	1,405,002	-	-	1,405,002
Support services	979,351	-	-	979,351
Community Services	-	-	1,100	1,100
Food services	-	-	122,266	122,266
Athletics	-	-	92,872	92,872
Debt service				
Principal	-	-	105,000	105,000
Interest and other charges	-	-	159,179	159,179
Capital projects	-	15,466	-	15,466
Total expenditures	2,384,353	15,466	480,417	2,880,236
Excess (deficiency) of revenues over (under) expenditures	124,870	(11,922)	(167,352)	(54,404)
OTHER FINANCING SOURCES (USES)				
Transfers from other governmental units and other transactions	31,275	-	-	31,275
Transfers in	-	-	81,707	81,707
Transfers out	(81,707)	-	-	(81,707)
Other transactions	(65,757)	-	-	(65,757)
Total other financing sources (uses)	(116,189)	-	81,707	(34,482)
Net change in fund balances	8,681	(11,922)	(85,645)	(88,886)
Fund balances at July 1, 2007	421,289	127,656	110,355	659,300
Fund balances at June 30, 2008	\$ 429,970	\$ 115,734	\$ 24,710	\$ 570,414

The accompanying notes are an integral part of this statement.

Pentwater Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2008

Total fund balance—governmental funds	\$	570,414
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not current financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 7,530,630		
Accumulated depreciation	<u>(2,336,047)</u>		5,194,583

Bond issuance costs are not capitalized and amortized in the governmental funds.

Bond issuance costs and discounts	85,708		
Accumulated amortization	<u>(14,855)</u>		70,853

Accrued interest in governmental activities is not reported in the governmental funds.		(26,138)
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Long-term obligations in governmental activities are not due and payable in the current period
and are not reported in the governmental funds.

Bonds and note payable		<u>(3,993,457)</u>
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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>1,816,255</u></u>
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The accompanying notes are an integral part of this statement.

Pentwater Public Schools
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2008

Net change in fund balances—total governmental funds	\$ (88,886)
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Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental funds report outlays for capital assets and bond issuance costs as
expenditures; in the Statement of Activities, these costs are depreciated and
amortized over their estimated useful lives, respectively.

Depreciation and amortization expense	\$ (274,895)	
Capital outlay	<u>83,308</u>	(191,587)

Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	112,977
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Interest expense on long-term obligations is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	350
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Early retirement incentives are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	<u>10,661</u>
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Change in net assets of governmental activities	<u><u>\$ (156,485)</u></u>
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The accompanying notes are an integral part of this statement.

Pentwater Public Schools
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
Fiduciary Funds
June 30, 2008

	Agency funds
ASSETS	
Cash and cash equivalents	\$ <u>55,927</u>
LIABILITIES	
Deposits held for others	\$ <u>55,927</u>

The accompanying notes are an integral part of this statement.

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Pentwater Public Schools (School District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School District's accounting policies are described below.

Reporting Entity

The School District is governed by an elected seven-member Board of Education (Board), which has responsibility and control over all activities related to public school education within the School District. The School District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the School District is not included in any other governmental reporting entity as defined by generally accepted accounting principles. In addition, the School District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. Board members have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters.

District-wide and Fund Financial Statements

District-wide Financial Statements – The primary focus of district-wide financial statements is on the sustainability of the School District as an entity and the change in the School District's net assets resulting from the current year's activities. The district-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the School District. For the most part, the effect of interfund activity has been removed from these statements. The district-wide financial statements categorize primary activities as either governmental or business type. All of the School District's activities are classified as governmental activities.

In the district-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The School District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. The School District first utilizes restricted resources to finance qualifying activities. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district, and other unrestricted items are not included as program revenues but instead as *general revenues*.

The district-wide Statement of Activities reports both the gross and net cost of each of the School District's functions. The functions are also supported by general revenues (property taxes, certain intergovernmental revenues and charges, etc.). The Statement of Activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The School District does not allocate indirect costs.

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

District-wide and Fund Financial Statements—Continued

Fund financial statements – Fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental funds – Governmental funds are those funds through which most School District functions typically are financed. The acquisition, use and balances of the School District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The School District reports the following major governmental funds:

- The *General Fund* is the School District's primary operating fund. It accounts for all financial resources of the School District, except those required to be accounted for in another fund.
- The 2004 *Capital Projects Fund* accounts for the use of debt proceeds and the acquisition of fixed assets or construction of major capital projects.

The other nonmajor governmental funds are reported within the following types:

- The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The School District accounts for its food service and athletic activities in the school service special revenue funds.
- The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *permanent funds* are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the School District's programs.

Fiduciary funds – Fiduciary funds account for assets held by the School District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the School District under the terms of a formal trust agreement. Fiduciary funds are not included in the district-wide statements.

- The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School District holds for others in an agency capacity (primarily student activities).

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, categorical aids and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the School District.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the school districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30, 2008 is reported as due from other governmental units.

The School District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies

Deposit and Investments

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

The School District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the School District intends to hold the investment until maturity.

State statutes authorize the School District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The School District is also authorized to invest in U. S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School District's deposits and investments are in accordance with statutory authority.

Interfund Receivables and Payables

Activities between funds that are representative of lending or borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". The School District had no advances between funds.

Property Taxes

Property taxes levied by the School District are collected by various municipalities and periodically remitted to the School District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 15 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the School District levied the following amounts per \$1,000 of taxable valuation:

<u>Fund</u>	<u>Mills</u>
General Fund - Non-homestead	18
Debt Service Fund	0.92

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Inventories

Food service inventory is valued at the lower of cost (first-in, first-out) or market. The inventory is expendable supplies held for consumption and is recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond the fiscal year end are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets include bond proceeds to be used for capital construction.

Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received. Capital assets are defined by the School District as assets with an initial cost of more than \$1,000 and an estimated useful life in excess of one year. Management has elected to include certain homogeneous asset categories with individual assets less than \$1,000 as composite groups for financial reporting purposes. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets. The School District does not have infrastructure-type assets.

Depreciation is provided on the straight-line basis over the following useful lives:

Buildings and improvements	20-50 years
Buses and other vehicles	8 years
Furniture and other equipment	5-20 years

Land and certain land improvements are deemed to be inexhaustible capital assets, as the economic benefit or service potential is used up so slowly that the estimated useful life is extraordinarily long. These inexhaustible assets are not depreciated.

Early Retirement Incentives

For district-wide financial statements, the liability for early retirement incentives is reported when legally enforceable. For fund financial statements, the liability for early retirement incentives is reported either 1) on the due date when there is a specified due date or 2) on the retirement date if it is before year end, when there is not a specified legally enforceable due date.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On fund financial statements, receivables that will be collected after the available period are reported as deferred revenue.

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Other Accounting Policies—Continued

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts, as well as issuance cost, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Assets In District-wide Financial Statements

Net assets represent the difference between assets and liabilities and are segregated into the following components:

- **Invested in capital assets, net of related debt** consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- **Restricted net assets** result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributions, and the like, or imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted net assets** consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be removed or modified.

Fund Equity In Fund Financial Statements

The School District reserves those portions of governmental fund balances that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriations for expenditures. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves are established for encumbrances, inventory of materials and supplies, prepaid items, deferred charges and advances to other funds, when applicable. Designations of fund balance represent tentative management plans that are subject to change.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statement and accompanying notes. Actual results may differ from those estimates.

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General Fund and special revenue funds. All annual appropriations lapse at year end.

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, are noted in the required supplementary information section.
4. The Business Manager is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
5. Formal budgetary integration is employed as a management control device during the year.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The School District does not consider these amendments to be significant.

School Bond Construction Compliance

The 2004 Capital Projects Fund includes capital project activities funded with bonds issued after May 1, 1994. For this capital project, the School District has complied with the applicable provisions of §1351(a) of the State of Michigan's school code.

Following is a summary of the revenue and expenditures in the 2004 Capital Projects Fund from the inception of the fund through June 30, 2008.

	<u>2004 Building Capital Projects Fund</u>
Revenue and bond proceeds	\$ 4,203,618
Expenditures	4,087,884

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2008, the School District had the following investments:

Investment Type	Fair value	Weighted average maturity (Days)	Standard & Poor's rating	Percent
External investment pool	\$ <u>10,329</u>	49	AAAm	<u>100.0</u> %

The School District voluntarily invests certain excess funds in external pooled investment funds which included money market funds. The pooled investment fund utilized by the School District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the School District's investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the School District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in interest rates by using the following methods: segmented time distribution, specific identification, weighted average maturity, duration and simulation model.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations. The School District has no investment policy that would further limit its investment choices.

Concentration of credit risk. The School District does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the School District investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. As of June 30, 2008, \$758,133 of the School District's bank balance of \$958,133 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The School District does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the School District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The School District is not authorized to invest in investments which have this type of risk.

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 212,191	\$ -	\$ -	\$ 212,191
Capital assets, being depreciated:				
Buildings and improvements	6,586,727	7,150	-	6,593,877
Furniture & Equipment	409,506	5,564	-	415,070
Vehicles	238,898	70,594	-	309,492
Total capital assets, being depreciated	7,235,131	83,308	-	7,318,439
Less accumulated depreciation:				
Buildings and improvements	1,655,026	214,762	-	1,869,788
Furniture & Equipment	236,190	34,426	-	270,616
Vehicles	173,364	22,279	-	195,643
Total accumulated depreciation	2,064,580	271,467	-	2,336,047
Total capital assets, being depreciated, net	5,170,551	(188,159)	-	4,982,392
Capital assets, net	\$ 5,382,742	\$ (188,159)	\$ -	\$ 5,194,583

Depreciation

Depreciation expense has been charged as unallocated depreciation.

NOTE E—BOND COSTS

Bond cost activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Bond costs	\$ 85,708	\$ -	\$ -	\$ 85,708
Less accumulated amortization	11,427	3,428	-	14,855
Bond costs, net	\$ 74,281	\$ (3,428)	\$ -	\$ 70,853

Amortization

Amortization expense has been charged as unallocated amortization.

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE F—INTERFUND TRANSFERS

The General Fund transferred \$81,707 to the Athletics Fund to finance operations.

NOTE G—SHORT-TERM DEBT

The School District issues tax anticipation notes to provide short-term operating funds. The notes are obligations of the General Fund, which received the note proceeds, and are backed by the full faith, credit and resources of the School District. The short-term debt activity for the year ended June 30, 2008 follows:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
Tax anticipation note				
2007/2008 4.04% due February 2008	\$ -	\$ 540,000	\$ 540,000	\$ -

NOTE H—LONG-TERM OBLIGATIONS

The School District issues bonds, notes and other contractual commitments to provide for the acquisition, construction and improvement of major capital facilities and for the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the School District.

Summary of Long-term Obligations

The following is a summary of long-term obligations activity for the School District for the year ended June 30, 2008:

	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008	Due within one year
Governmental activities:					
Bonds	\$ 4,080,000	\$ -	\$ 105,000	\$ 3,975,000	\$ 110,000
Other obligations	26,434		7,977	18,457	8,784
Early retirement incentives	10,661	-	10,661	-	-
	<u>\$ 4,117,095</u>	<u>\$ -</u>	<u>\$ 123,638</u>	<u>\$ 3,993,457</u>	<u>\$ 118,784</u>

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE H—LONG-TERM OBLIGATIONS—Continued

Summary of Long-term Obligations—Continued

General obligation bonds consist of the following:

2004 School Building Site Bonds payable
in annual installments ranging from
\$110,000 to \$280,000 due May 2009 to
2029; plus interest ranging from 2% to
4.5% payable semi-annually \$ 3,975,000

Other obligations

Capital lease obligation payable in monthly
installments of \$849 including interest at
9.3%; final payment due June 2010 18,457
\$ 3,993,457

The annual requirements of principal and interest to amortize debt and capital lease obligations outstanding as of June 30, 2008 follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 118,784	\$ 158,230	\$ 277,014
2010	124,673	154,812	279,485
2011	120,000	151,366	271,366
2012	130,000	148,006	278,006
2013	135,000	144,106	279,106
2014-2018	785,000	646,638	1,431,638
2019-2023	1,025,000	476,692	1,501,692
2024-2028	1,275,000	236,837	1,511,837
2029	<u>280,000</u>	<u>12,600</u>	<u>292,600</u>
	<u>\$ 3,993,457</u>	<u>\$ 2,129,287</u>	<u>\$ 6,122,744</u>

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE I—EMPLOYEE BENEFITS

Employee Retirement System – Defined Benefit Plan

Plan description – The School District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and post-retirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to or calling:

Office of Retirement Systems
Michigan Public School Employees Retirement System
P.O. Box 30171
Lansing Michigan 48909
1-800-381-5111

Funding policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9 percent of gross wages. The MIP contribution rate was 4.0 percent from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9 percent. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3 percent of the first \$5,000; 3.6 percent of \$5,001 through \$15,000; 4.3 percent of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9 percent of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2008 was 16.72 percent of payroll. The contribution requirements of plan members and the School District are established and may be amended by the MPERS Board of Trustees. The School District contributions to MPERS for the year ended June 30, 2008, 2007 and 2006 were approximately \$212,000, \$222,000 and \$214,000, respectively, and were equal to the required contribution for those years.

The School District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other post-employment benefits – Under the MPERS Act, all retirees have the option of continuing health, dental and vision coverage.

Pentwater Public Schools
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2008

NOTE J—CONTINGENCIES

The School District participates in grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the School District expects such amounts, if any, to be immaterial.

NOTE K—OTHER INFORMATION

Risk Management – The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The School District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The School District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The School District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

REQUIRED SUPPLEMENTARY INFORMATION

Pentwater Public Schools
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
For the year ended June 30, 2008

	Budgeted amounts			Variance with final budget- positive (negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 2,219,364	\$ 2,252,622	\$ 2,252,703	\$ 81
State sources	32,650	195,649	161,047	(34,602)
Federal sources	73,335	93,691	95,473	1,782
Incoming transfers and other transactions	27,000	31,033	31,275	242
Total revenues	2,352,349	2,572,995	2,540,498	(32,497)
EXPENDITURES				
Instruction				
Basic programs	1,235,662	1,252,492	1,234,431	18,061
Added needs	146,730	177,768	170,571	7,197
Support services				
Pupil	78,763	80,681	70,332	10,349
Instructional staff	115,420	126,433	109,365	17,068
General administration	156,266	175,045	154,208	20,837
School administration	107,559	111,263	106,926	4,337
Business	84,487	86,546	79,332	7,214
Operations and maintenance	282,434	290,362	271,004	19,358
Pupil transportation services	78,983	166,304	158,148	8,156
Central	34,500	34,500	30,036	4,464
Other	37,100	71,300	65,757	5,543
Outgoing transfers and other transactions	95,000	95,000	81,707	13,293
Total expenditures	2,452,904	2,667,694	2,531,817	135,877
Excess (deficiency) of revenues over (under) expenditures	\$ (100,555)	\$ (94,699)	8,681	\$ 103,380
Fund balances at July 1, 2007			421,289	
Fund balances at June 30, 2008			\$ 429,970	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

October 17, 2008

Board of Education
Pentwater Public Schools
Pentwater, Michigan

In planning and performing our audit of the financial statements of Pentwater Public Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Pentwater Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the attached deficiencies in internal control that we consider to be significant deficiencies.

This communication is intended solely for the information and use of the Board of Education, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



SIGNIFICANT DEFICIENCY

Recommendation 1: Segregation of duties should be strengthened.

Although the small size of the School District's staff limits the segregation of duties, we believe certain steps could be taken to separate incompatible duties. The basic premise is that no one employee should have access to both physical assets and the related accounting records or to all phases of a transaction. Often, one of the most effective approaches is the expansion of documented approval of transactions and reconciliations by someone outside of the office staff.

The following are some suggested areas where improvements could be made:

- Cash—The monthly bank reconciliations should be reviewed and approved by someone independent of cash receipt and cash disbursement functions.
- Cross-training—An individual or individuals should be trained to perform day-to-day activities in the absence of the bookkeeper.